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SUBJECT: MESO-AMERICAN BIOFUELS GROUP MEETING SUMMARY

11. (SBU) Summary: The Meso-American Biofuels Group met on November 14 in Guatemala City to discuss progress in developing the production and consumption of biofuels across Central America from Mexico to Colombia. Attendees were government representatives from participant countries, the Inter-American Development Bank (IDB), EconOff from Santo Domingo, and a private biofuels expert sponsored by the Business Roundtable on Renewable Energy who discussed biofuels sustainability challenges. The discussions were upbeat and positive with the exception of Costa Rica, which focused on the challenges and pitfalls of implementing an ethanol blend into the local transportation industry. Controversial issues (i.e., food price impact, U.S. farm subsidies, etc.) were touched on briefly during the wrap-up conclusionary session, but were not the central focus of discussions, which dealt more with the sharing of best practices in national support for biofuels growth. End Summary.

12. (U) On November 14, representatives from six Central American countries, Mexico and the Dominican Republic met in Guatemala City for the Fourth Meso-American Biofuels Meeting sponsored, in part, by the IDB. Each country presented a review of government and private sector progress in developing their respective biofuels industries, and the meeting concluded with a roundtable discussion. Below is a very brief summary of the main points from each country's report, in order of presentation:

Costa Rica

13. (SBU) Costa Rica's presentation focused primarily on the difficulties experienced in its pilot program for introducing a mandatory 5 percent ethanol blend in vehicles in its northwestern Barranca region. These difficulties centered on misinformation and lack of education about the impact of blended fuel on vehicle performance and the potential for engine problems, which reportedly resulted in widespread confusion about the science of blending ethanol with gasoline. Costa Rica's representative even pointed out that auto importers had recently pushed for a limit on blending of ethanol at only 5 percent citing engine problems that they claimed could result with a higher percentage blend. However, Costa Rica's representative confirmed that the pilot program would ultimately be extended nationwide to include a 5 percent biodiesel blend and a 7 percent ethanol blend based on supply restrictions, although the exact timeline remained in question.

14. (SBU) Costa Rica's broader biofuels plans center on the importation of Brazilian ethanol both for local consumption

and for export to the U.S. under the Caribbean Basin Initiative (CBI). There appears to be very limited local production of ethanol or biodiesel and no figures for local production were cited, only that the total consumption and exportation of ethanol equaled approximately 158 million litres per year. On an important side note, Costa Rica touted its plans for blending ethanol and biodiesel in its distribution pipelines rather than splash-blending at the distribution points, a concept that would be unique to Costa Rica. A Brazilian attendee confirmed the opinions of others in the room who raised skepticism about this approach citing the corrosive nature of ethanol's water content to pipeline infrastructure. The Brazilian attendee noted that pipeline blending had been considered but ultimately rejected in favor of distribution point blending and noted that the same is true in the United States.

Honduras

15. (SBU) Honduras' representative was upbeat about the prospects for biofuels development and was keen to gain support for his country's initiatives, but also acknowledged problems and delays in successfully realizing goals. To start, he noted that biofuels/renewable energy legislation is close to passage, having passed through its first readings in congress, by the end of this year. This legislation would require the mixture of ethanol and gasoline through the elimination of MTBE. As part of its biodiesel initiatives, he noted the government's efforts to work with transportation unions to produce their own biodiesel and convert to biofuels exclusively. He said the government's goal is to replace imported diesel completely in the next few years. However, he said there are real problems convincing farmers to plant biofuels production which has resulted in, for example,

production stoppages at some of the five small-scale jathropa plants that have been constructed. (Note: The representative from Honduras lamented the fact that Honduras was not included in the initial group of countries targeted by the U.S.-Brazil Biofuels Partnership and expressed his desire that it be included in any future expansion of the initiative. He also showed EconOff a presentation on tilapia fish oil conversion to biodiesel that he described as an innovative project with large expansion potential in the region.)

Mexico

16. (SBU) Mexico was unable to send a representative from the Energy Ministry and so a representative from the Ministry of Foreign Affairs stood in with a very broad and general assessment. The representative highlighted recently passed renewable energy legislation as an important first step, but said that additional legislation is necessary to fully realize the potential for biofuels in the country.

Dominican Republic

17. (SBU) The Dominican Republic representative made a few significant announcements. First, he announced that the government has decided to mandate at least a 3 percent ethanol blend to replace MTBE at the country's sole refinery, which will soon be 100 percent government owned, supposedly in long-awaited regulations from its recently passed renewable energy legislations. Second, he highlighted a large scale ethanol project to produce up to 100 million gallons per year of ethanol, with 40 percent targeted for local consumption and 60 percent targeted for export under CAFTA-DR using previously fallow sugar plantations currently owned by the government's State Sugar Board. He also highlighted a biodiesel project that is currently producing 6,000 gallons/month and cited two pilot programs, one along the border with Haiti to produce cooking oil from jathropa plants through clusters of energy farms, and another for biodiesel production using sugarbeet, which he said had

already produced results. In addition to these announcements the Dominican representative discussed possible plans to convert the nation's buses to biodiesel, although no specifics were provided. (Comment: Considering the lack of specifics presented by the Dominican government as recently as September 2007 in meetings with Embassy and visiting State Department officials on many of these same issues, this presentation marked a stark contrast with previous public statements about the potential and advancement of biofuels production in the Dominican Republic. That being said, most of the projects and initiatives he identified are still in the concept phase. End Comment.)

Belize

¶18. (SBU) Belize's representative described his country's efforts to develop biofuels as just beginning, but cited a jathropa project that is under consideration by the government and noted the government's interest in rejuvenating its fallow sugar plantations. Emphasizing Belize's interest in moving towards biofuels the representative noted that Belize currently spends 57 percent of its foreign exchange receipts on the importation of petroleum products and said he would welcome technical assistance from international organizations or other governments.

El Salvador

¶19. (SBU) El Salvador's representative was highly enthusiastic and described a plethora of ongoing projects for both ethanol and biodiesel production. He even noted the rising difficulty of coordinating the range of foreign assistance being pumped into El Salvador, including the U.S.-Brazil Biofuels Partnership as well as IDB and European assistance. Regarding local consumption El Salvador's rep highlighted a mandatory 10 percent ethanol mixture and 5 percent biodiesel mixture. However, recognizing that these goals are ambitious, he noted the government's efforts to ensure price stability to achieve these goals. In addition to producing for local consumption, he noted El Salvador's current and anticipated export goals for dehydrated ethanol from Brazil under CBI as well as the strong growth potential they see for biofuels exports under CAFTA-DR from new local production projects.

Guatemala

¶10. (SBU) Guatemala's representative focused on the recent creation of its National Biofuels Commission (NBC) and on the transition of power to a new government early next year. The representative noted that the NBC, which has been charged with all decision-making related to biofuels, is focused on providing a set of recommendations to the incoming government, hopefully by the end of this year, including a chronogram of necessary incentives and requirements for local production and consumption. He said that the NBC was anxiously awaiting the IDB's technical assistance team's formulation of a National Action Plan for biofuels, but said that things were largely on hold at the government level until the transition to a new government is completed. On the production side he said that there is already sufficient local production capacity to enact a 10 percent fuel blend, but said that the lack of government regulations and legislation poses a hurdle to private sector initiatives.

Panama

¶11. (SBU) Panama's representative gave a brief account of the country's progress touting its current capacity of four ethanol plants that produce up to 200,000 litres/day for local consumption and exportation. Panama's representative focused on exports of ethanol that Panama hopes to generate

under the new free trade agreement with the U.S. While she didn't rule out biodiesel production on a small scale, she said the government didn't believe that jathropa production is economically viable in Panama.

Conclusionary Discussion

¶12. (SBU) Following the country presentations, as well as EconOff's presentation of the U.S.-Brazil Biofuels Partnership goals and implementation strategy, there was a wrap-up session to identify the way forward and address any outstanding issues. During this session several of the sensitive political issues were raised, including what the impact on food prices is of subsidized corn-ethanol production in the U.S. and what the consequences would be of a U.S. administration change be on the U.S.-Brazil Biofuels Partnership. Attendees appeared satisfied with EconOff's explanation of a continued commitment to promote renewable energies in Latin America that transcends political parties, and had little appetite for the discussion of food prices, which was dropped after only a couple of brief comments. There was a brief, but pointed, debate about the independent expert's presentation on sustainability of biofuels production. Unfortunately, there was no concrete decision on what the way forward should be for the group apart from agreement on continued technical assistance through the Secretary General of the System for Central American

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Integration, which is supported by the IDB. That being said, participants largely appreciated the exchange of information and updates on biofuels initiatives and many participants made sideline agreements to share information more regularly on innovative or creative approaches.

¶13. (SBU) Comment: With the exception of Costa Rica and to a lesser extent Honduras, the countries focused primarily on the positive developments and prospects for biofuels production and consumption. However, if the Dominican Republic's optimism is any guide, many of the projects and initiatives discussed and touted by government representatives likely remain in the nascent developmental stage. Participants were generally dynamic and looking for ideas to expand their production and consumption of biofuels.

Common themes across governments were the lack of clear regulatory frameworks as well as concerns about pricing structures, lack of standardization across Central America and infrastructure difficulties. (Note: All PowerPoint presentations will be forwarded to the Department via email once received from the conference organizer in Guatemala. For additional information or to receive the presentations please contact Economic Officer, Hagen Maroney, at maroneyhd@state.gov.) End Comment.

BULLEN